



PONTIFICIA **UNIVERSIDAD CATÓLICA** DEL PERÚ

IDEI
INSTITUTO DE ESTUDIOS INTERNACIONALES

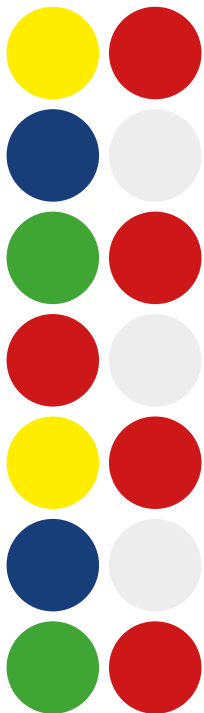
**KONRAD
ADENAUER
STIFTUNG**

**Policy Network on Security
Between Peru and its neighbors
POLICY PAPER N° 5
MAY 2022**

www.idei.pucp.edu.pe

www.kas.de/es/peru

ISBN: 978-9972-671-92-0



CHINA'S PRESENCE IN THE SOUTH AMERICAN REGION. ITS IMPLICATIONS IN THE FIELD OF SECURITY

Fabián Novak
Sandra Namihas

**POLICY PAPER
EXTRA-REGIONAL
THREATS
TO SECURITY**

MAY 2022

www.idei.pucp.edu.pe

www.kas.de/es/peru

ISBN: 978-9972-671-92-0

*China's presence in the South American region.
Its implications in the field of security*

1st ed., May 2022

Legal Deposit at the National Library of Peru:

ISBN: N° 978-9972-671-92-0

© Pontificia Universidad Católica del Perú
Instituto de Estudios Internacionales (IDEI)
Plaza Francia 1164, Lima 1 – Perú

Email: idei@pucp.edu.pe

Tel.: (51-1) 626-6170

URL: <www.pucp.edu.pe/idei>

<www.facebook.com/ideipucp>

© Konrad Adenauer Stiftung (KAS)

Av. Larco 109, 2º Piso, Lima 18 – Perú

Email: kasperu@kas.de

URL: <www.kas.de/peru>

Tel.: (51-1) 416-6100

URL: <www.kas.de/peru/es>

<www.facebook.com/kasenperu>

Authors:

Fabián Novak (0000-0001-5125-1748)

Sandra Namihás (0000-0002-0936-5132)

All rights reserved; reproduction of this book by any means, in whole or in part, without the express permission of the publishers, is prohibited.

Layout: Interactiva Studio

1st ed. DIGITAL, May 2022

Available at <http://repositorio.pucp.edu.pe/index/handle/123456789/123985>

May 2022

TABLE OF CONTENTS



1. Introduction	4
2. Comparison and general conclusions	6
3. Comparison and specific conclusions	7
3.1. Economic field	7
3.1.1. In the trade sphere	7
3.1.2. In the investment sphere	8
3.1.3. In the financial sphere	9
3.2. Political field	10
3.3. Military field	11

1 Introduction

The Security Policy Network was created in 2015 at the initiative of the Pontifical Catholic University of Peru's Institute of International Studies and the Konrad Adenauer Foundation. It is currently made up of specialists and professors from the aforementioned university, as well as academics from the University of Brasilia, the University of Chile, the Bolivian Catholic University, the Pontifical Javeriana University of Bogotá and Ecuador's Institute of Higher National Studies.

In 2021, the Network published its seventh book, an analysis of the security implications of the presence of the People's Republic of China in the South American region.¹

China was chosen not only because it has become the world's second largest economic power in the 21st century—with projections of overtaking the U.S. economy in a few years—but also because it is the world's largest exporter, thus accumulating the greatest amount of foreign currency reserves. It is also the world's second greatest source of foreign direct investment and the driving force behind a series of global initiatives (such as the Asian Infrastructure Investment Bank, the Asia-Pacific Free Trade Area and the famous Belt and Road Initiative (BRI)). In addition, it has successfully inserted itself in Africa and Latin America and has constructed the biggest navy in the world. All of this has led most analysts to recognize China as a superpower and, as a logical consequence, the creation of a bipolar order in which the Asian giant stands alongside the U.S., initiating a dispute over power and influence throughout the planet.

In the specific case of Latin America, China has become its second largest trade partner after the United States. Latin American exports to China have increased from 1.5% of the total in 2001 to 10% in 2018, while imports from China have increased from 3% to 18% in the same period. Moreover, China has become the second larg-

1 Book citation:

Baeza Freer, J., Campero, J.C., Cortinhas, J., Escudero Illanes, M.C., Namihas, S., Novak, F. Pastrana Buelvas, E., Pérez Henríquez, D., Ramalho, J.A., Reyes Herrera, M., Rooney Paredes, M. and Vera Piñedos, D. (2021). *La presencia de China en la región sudamericana. Las implicancias en el campo de la seguridad*. Instituto de Estudios Internacionales (IDEI) of the PUCP and Fundación Konrad Adenauer in Peru.

Digital version of the book available at:

<https://repositorio.pucp.edu.pe/index/handle/123456789/182544>

<https://www.kas.de/de/web/peru/publikationen/einzeltitel/-/content/la-presencia-de-china-en-la-region-sudamericana-las-implicancias-en-el-campo-de-la-seguridad-1>



est investor in the region since 2016, with the installation of more than 2,000 companies. Likewise, it has implemented regional investment funds and provided important financing, particularly to those countries with difficulties in accessing credit from traditional sources. As if this were not enough, it has established 40 Confucius institutes and 12 teaching rooms in countries of the region to disseminate its language and culture, increased and diversified its military cooperation, signed strategic partnership agreements with important countries, established friendly ties with various political parties and actively participated in regional dialogue arenas such as the Community of Latin American and Caribbean States (CELAC).

While this Chinese presence is a matter of concern to the United States, critical voices are absent in Latin America itself. This is largely due to China's soft power strategy, and to the fact that the countries thus far perceive no Chinese interest in exporting its political, economic or social model to this region, with most of them viewing China as an economic partner, not a political ally.

For these reasons, the Security Policy Network considered it important to analyze the possible impacts China's presence has had or could have on the security of each of the Network's six participating countries. To this end a basic structure was agreed upon. Firstly, it was considered important to establish the effects the U.S.-China conflict and China's participation in the Venezuelan crisis have had on these countries' security. Secondly, based on the above, each study should concentrate on the respective country's own analysis of the economic, political and military relations it has achieved with China and the possible consequences or repercussions of such relationship levels for that country's security.

The volume thus offers the following studies: "China in South America. Implications for security in Brazil" by Antonio Jorge Ramalho and Juliano da Silva Cortinhas; "China's presence in Colombia and the region and its effects on national security" by Eduardo Pastrana Buelvas and Diego Vera; "Security and defense cooperation between Peru and China. Approaches from a multidimensional perspective" by Mildred Rooney Paredes; "Partners but not Allies. Role theory in the relations between China and Chile in the global context" by Jaime Baeza Freer and María Cristina Escudero Illanes; "Ecuador-China relations in the field of security. Perspectives on the 'subtle' elements in the global strategy" by Milton Reyes Herrera and Diego Pérez Enríquez; and "Implications of China's presence in Bolivia" by José Carlos Campero. They are joined by Sandra Namihás and Fabián Novak, who are responsible for the final chapter, "China in South America. Conclusions in the field of Security," which pulls together the work's general and specific conclusions.

2 Comparison and general conclusions

In this regard, this policy paper focuses on analyzing and comparing the contents of the six aforementioned studies comprising the book, from which the following general conclusions were reached:

- a) The insertion of the People's Republic of China in Latin America, particularly in the six countries participating in the Security Policy Network, has been characterized by the subtlety of its approach, i.e., by the use of soft power mechanisms, thus far not seeking visibility, a dramatic alteration of the pre-existing conditions or a confrontation with the United States in what is considered the immediate sphere of U.S. influence.
- b) China's penetration in South American countries is characterized by pragmatism (not conditioned to ideologies, values or principles), flexibility (it adapts to each country's circumstances or characteristics) and differentiation (depending on the country in question), essentially concentrating on the economic field.
- c) China's insertion in South American countries was initially through trade, investment and financing. This was encouraged by the increase in raw materials prices in the countries and by China's accelerated import of these raw materials (food, minerals, etc.), which generated significant profits and benefits for both parties. It also, however, meant these countries' greater dependence on the Asian superpower, as well as the intensification of their primary export structure.

The 2008 crisis accelerated China's capital exports, which translated into strong direct investments in South American States, increasing even more their dependence on the Asian giant.

- d) Subsequently, China has sought a more comprehensive relationship with the region's countries through its 2008 and 2016 plans for Latin America and the Caribbean, in some cases succeeding in forming strategic partnerships. Doing so ensures a relationship not limited to the economic sphere but extended to the political, social, military and cultural ones, thus increasing China's support and influence in the world.
- e) The U.S. perceives this insertion as a threat, although it seems not to have a strategy for regional containment of China, let alone a policy against the region's States that are moving closer to it.
- f) In contrast, most South American countries seem not to perceive a threat from China's insertion, at least if it remains essentially concentrated in the economic field, as it has been up to now. Moreover, unlike China's vision, most South American countries perceive the Asian power only or mainly as an economic partner and not as a political ally.
- g) With the exception of Bolivia, the other five countries studied are taking advantage of their relationship with China to increase their trade income, attract investments and obtain loans from that country, all favorable to their economic and social development. At the same time, they are seeking to keep the U.S. as their strategic ally, maintaining the values and principles it postulates. It is why these countries are trying to avoid aligning with China or approving measures either superpower could perceive as aggressive.





- h) Within this framework, all six countries have remained on the sidelines of the struggles between the two superpowers, such as the trade tariff war for example. Even though these countries were indirectly affected—in some cases favorably, in others not—none of them participated in the struggle, precisely to avoid alignment and, consequently, possible resentment or negative reactions from one of the superpowers. Even Bolivia took no action, although some of its authorities spoke out against the trade war unleashed by the U.S. The foreign ministries of these countries are, however, greatly concerned about the future development and scenarios of this superpower struggle and the possible repercussions it could have on their economies and security.
- i) Finally, regarding the Venezuelan crisis, the South Americans—Bolivia’s alignment with the Asian power apart—do not see China’s support for the Venezuelan regime as a direct threat. They instead perceive it as a diplomatic obstacle to inducing a change of government in Venezuela, restoring its democracy and putting an end to the humanitarian and migratory crisis that has overflowed precisely into these countries.

3 Comparison and specific conclusions

3.1. Economic field

3.1.1. In the trade sphere

China has accelerated its trade with all six countries since the beginning of this century and with greater emphasis since 2008. It is now the first trade partner of Bolivia, Brazil, Chile, Ecuador and Peru, and the second of Colombia. It maintains a deficit in the trade balance with Brazil, Chile, Ecuador and Peru, while it has achieved a surplus with Bolivia and Colombia.

The increase in trade exchange is due to (a) the complementarity of the Chinese and South American economies, with the former needing raw materials, food and minerals, and the latter possessing them; (b) the capacity of the Chinese economy and its market to absorb all the production of these goods in the region (for example, China buys 79% of Brazil’s soybean exports and 28% of its total exports); (c) the high international prices of mining and energy goods for many years, which encouraged their production by South American countries; (d) China’s signing of free trade agreements with Chile and Peru, which established a facilitating framework for this commercial exchange; and (e) the space left by the U.S. and Europe in this field.

Interestingly, China buys some South American products on an almost monopolistic basis; we have already mentioned the case of Brazilian soybeans, to which we could add others such as Chilean copper, Peruvian minerals (42% of Peru’s total mining exports go to China) or Bolivian boneless beef and tin concentrate, with the Chinese market representing more than 95% of the total. The same phenomenon occurs with the imports of Chinese goods; thus the 20 main products imported by Bolivia come from China, almost all of them exceeding 50% and in some cases 80% and 90%.



The security problem with this is that high dependence can be a power factor China could use in the future, as happened in 2016, when it decided not to buy soybeans from Argentina as payback for the new Argentine government’s desire to revise some of its investment projects.

3.1.2. The investment sphere

Since 2007, Chinese investment has intensified in most of the six countries studied, as has the presence of Chinese companies, allowing for job creation. In general, South American countries have received the highest percentage of Chinese investment in all of Latin America and the Caribbean (98.4%). Brazil attracted the most, with 38.4% of the Asian giant’s US\$182.938 billion invested in the region going to it between 2005 and 2020. Peru was the region’s second largest recipient of China’s investment in the same period.

This is not to suggest that China has no important investments in other member countries of the Network or in Latin America in general. The problem is that three factors make such investments difficult to identify and quantify: (i) for tax reasons, China concentrates its investment in the tax havens of the Cayman Islands and British Virgin Islands; (ii) several South American countries, such as Peru, do not record the investment’s source; and (iii) it is common for Chinese investment to be made through subsidiaries located in other countries such as the United Kingdom, the Netherlands and Australia, among others, thus distorting China’s real importance as an investor in the region’s countries.

Chinese investment in South America has been concentrated in various sectors depending on the receiving country: technology and communications, automotive, transportation and infrastructure in Colombia; energy and infrastructure in Chile; mining, energy, logistics, finance and transportation in Peru; electric power, oil, gas, mining, infrastructure, agriculture and financial services in Brazil; and oil, mining and infrastructure in Ecuador.

It is important to highlight China’s trend in the region in recent years to both diversify its investments and intensify its public infrastructure projects. This is not only due to the deficit of such infrastructure in most of the six countries, but also because it is in the Chinese State’s interest to include infrastructure investment as a fundamental pillar of its “Go out” policy. Indeed, connectivity is the basis of China’s geopolitical strategy, as it allows it to guarantee the supply of products its economy and population require. Moreover, given that the Chinese economy is no longer growing at double-digit rates, its construction companies need to capture foreign markets, which is why they are also interested in participating in these investment projects.

It is no coincidence that several of the six countries—Bolivia, Chile, Ecuador and Peru—have joined the Asian Infrastructure Investment Bank and have adhered to China’s great Belt and Road Initiative project. These four countries emphasize precisely this type of project.

It should be noted that, unlike U.S. and European investment, Chinese investment is beginning to have a totalizing quality in several South American countries, acquiring all the components of a production-export cycle. For example, through its parent



company China Three Gorges, the state-owned China Yangtze Power International (Hongkong) Co. Ld. (CYP) controls the energy cycle in Peru, having purchased the Luz del Sur distribution company, which supplies Lima; Tecsur, which provides electrical construction and infrastructure services to CYP and third parties; and the Chaglla electricity generating company. China intends to do the same with the planned port of Chancay, but with its sights set on the mining corridor coming from the center of the country, buying most of the shares of several copper companies in Peru.

Although this type of action does not constitute a security threat or risk, it is beginning to be seen as a concern, since it once again attributes a power factor to China that can be used in the future.

The presence of Chinese companies in the six countries must differentiate the large multinational companies from the smaller ones. Although both have been accused of violating environmental and labor laws, they differ in the way they operate. In Bolivia, for example, small Chinese companies come to extract minerals and do so “silently,” operating without attracting attention so as to benefit from the profits of extraction without complying with labor, environmental and even transportation laws (as of June 2019 alone, 460 socio-labor and environmental complaints had been filed against 17 of these Chinese companies). The challenge the companies represent, then, is not limited to non-compliance with internal regulations, but could even imply a security problem.

3.1.3. In the financial sphere

China’s lending in four of the six countries studied remains quite low. Colombia’s debt with China, for example, does not exceed 1% of its GDP and Chile’s figure is even more insignificant. Peru’s debt with the Chinese state bank (China Development Bank) is only US\$50 million, while Peru has received just three minor loans from Chinese commercial banks, for the mining sector. Bolivia has obtained loans totaling US\$3.7 billion (although according to official sources it is reduced to 1 billion), an amount higher than the previous cases but frozen since 2018. These low indebtedness levels render almost nil any possibility of China using debt to influence decision-making in these countries.

Brazil, on the other hand, has received US\$30 billion in financing through China’s most important development banks, but its gigantic economy is capable of absorbing this amount without generating any kind of dependence or loss of autonomy.

What is happening in Ecuador is different, since a gradual indebtedness began during the Rafael Correa government due to the impossibility of accessing other financing sources. It then continued during the Lenin Moreno government as a way to keep the public administration afloat. Thus, 71% of Ecuador’s bilateral foreign debt is with China. In addition, 90% of its total future exportable crude oil production until 2024 has been committed to honor this debt, thus giving China a powerful tool to influence Ecuador’s decision-making. This could be particularly serious if, as many speculate, Ecuador were to become unable to repay China. It would no longer be a political or military dependence, as in the past, but a financial one, with unsuspected consequences in the field of security.

Finally, it is important to note that Chinese loans also have conditionalities, although not those traditionally imposed by Western powers (respect for human rights, the environment, labor rights and the maintenance of a representative democratic system). China obliges the recipient countries not only to accept the political principle of one China, but also to hire Chinese companies to execute the projects, which means that in the event of any breach of contract by the State with these companies, the loan disbursement is automatically paralyzed, as happened with Argentina.

3.2. Political field

China's political interest in the region was initially to get these countries to recognize the "one China principle" and abandon their recognition of Taiwan. Subsequently, however, China has sought to translate this relationship into collaboration at the multilateral level, supporting its proposals and blocking any initiative contrary to its interests. Beyond reaching out through CELAC, China has also sought closer bilateral relations.

In general terms, five of the six South American countries do not currently have strong political relations with China, although the instruments and mechanisms exist. In the case of Bolivia, in contrast, the political relations with the Asian giant have marked its foreign policy, during both the government of Evo Morales and the current one of Luis Arce. This has translated into support for Chinese initiatives in multilateral bodies or in agreement in response to regional problems such as Venezuela.

The other five countries have held numerous presidential meetings with China, as well as visits by high-level national authorities in recent years. Some of these countries also have political consultation mechanisms and/or strategic economic dialogue mechanisms with China, as is the case of Chile and Peru, for example.

In some cases, the level of bilateral relations has been raised to that of Comprehensive Strategic Partnership (Bolivia, Brazil, Chile, Ecuador and Peru), in addition to participation in multilateral forums such as the CELAC-China forum, the Forum of East Asia-Latin America Cooperation (FEALAC) (all six countries in both cases), the Pacific Alliance (Colombia, Chile and Peru) and Asia-Pacific Economic Cooperation (APEC) (Chile and Peru), as well as other universal forums such as the UN, where South American States have been careful to avoid either aligning with or voting against China for human rights violations.

In addition, Chinese technical cooperation with South American countries has increased, including infrastructure and equipment, equipment donations, the sending of experts, humanitarian aid and scholarships.

More recently, as a consequence of the COVID-19 pandemic, China has intensified its cooperation with the six Network countries in the health field, executing what is called vaccine diplomacy through the donation of molecular tests, masks, biomedical equipment, mechanical ventilators and monitors, and the sale of vaccines. The results have differed in each case, however. While this cooperation has flowed smoothly in Bolivia, Brazil, Chile, Colombia and Ecuador, it has been the subject of questions and criticisms in Peru referring to alleged corruption issues or the efficacy of Chinese vaccines.



As can be seen, there is unquestionably an increase in the levels and arenas of political encounters between the countries studied and China; but none of them yet considers China a political, strategic or geopolitical ally, although it is a fundamental economic partner. There are even conflicting interests in some cases, such as Chile's in the Antarctic or control of the South Pacific. Moreover, Brazil, Chile, Colombia, Ecuador and Peru share the same values and principles as the U.S. and the rest of the West, and there is no alternative proposal from China. Nonetheless, the political changes that have taken place or are about to take place in some of these countries could change this scenario.

3.3. Military field

China's military cooperation with Latin America dates back decades, but it has intensified since 2004, when Hu Jintao visited the region. In that year, Chinese defense ministers and officers made 20 visits, which continued in the following years. In the first decade of the 21st century alone, Chinese military authorities made 155 visits to 11 Latin American countries.

Gradually, however, China's military cooperation began to be deployed in other areas, although with marked differences depending on the recipient country. Specifically, China's military cooperation today is developed in three areas: arms sales, military training and participation in international operations.

As for the six countries under study, Chinese military cooperation has not yet reached significant levels, although in several of them relations have become progressively closer.

For example, in the case of Colombia, although there are donations and mutual invitations to training courses for military personnel, China does not appear among Colombia's 16 largest armaments suppliers, which finds a logical explanation in the predominance the U.S. has had all these years in the fight against the Colombian guerrillas. A similar situation occurs with Ecuador, with which China also has donation and training agreements, but a low level of military arms sales. Brazil's case is identical. China is not among its 13 largest arms suppliers, but bilateral visits are made by actors responsible for defense; cooperation in the field of remote sensing, telecommunications and information technologies; and participation in the High-Level China-Latin America Defense Forum. The objective of the latter is to promote understanding and trust between Latin American militaries and their Chinese counterparts, as well as exchanges and cooperation between them.

Peru also engages in high-level meetings with and visits by senior Chinese military commanders; internships and exchanges of teachers, officers and researchers; equipment donations; joint humanitarian exercises and invitations for military training, but a very low level of military acquisitions (only 2% of the total purchased by this Andean country between 2013 and 2020).

Finally, Chile unarguably represents the lowest level of military exchange with the Asian giant, as it has never purchased any Chinese armaments in its history or discussed military technology issues, and has hardly ever participated in international defense events.





In synthesis, military cooperation with China has responded more to South American countries taking advantage of China's proactivity in this field than to their initiative or interest in establishing a strategic military relationship with the Asian power. In other words, the existing military cooperation with China will continue, but all indications are that it will not compromise the Western identity of the region's countries, their relations with the U.S., or the values and norms that structure their foreign policy.

Bolivia's case is somewhat different from that of the other five countries, in that it has spent considerable amounts since the Evo Morales administration to acquire Chinese military equipment and weapons ranging from K-8 and Harbin Z9 fighter planes to APC-ZFB armored vehicles and anti-riot armored cars. Some experts, however, argue that these purchases are not due to the formation of a strategic partnership between the two countries, but mainly to issues of price convenience and the payment of commissions to high-level authorities.

Therefore, none of these countries has made strategic alliances with China in security and defense, committed a substantial part of its budget for the purchase of Chinese weapons or lent territory for the installation of military bases, as other South American countries such as Venezuela and Argentina have done.

To conclude this paper, we can point out that, in general terms, the countries participating in this Network do not perceive China's insertion as a threat or risk to their security so far, although some issues of security concern in the fields of trade, financial and investment relations deserve a close look. As for political and military relations, they have not reached commitment levels that imply a strategic partnership, and these countries do not seem to desire one, precisely to avoid jeopardizing either their relations with traditional partners or their own security.

AUTHORS

Fabián NOVAK

A lawyer, he holds a Master's Degree in International Economic Law and a Doctor's Degree in Law from the Pontificia Universidad Católica del Perú (PUCP). Tenured Professor at the Law School of the Pontificia Universidad Católica del Perú, specialized in Public International Law. Deputy Director of the International Studies Institute (IDEI) of the PUCP. He is past-president of the OAS Inter-American Juridical Committee and Vice Minister of Defense Policies at the Ministry of Defense of Peru (2006-2008).

He is a full member of the Institut de Droit International and a member of the Hispanic-Luso-American Institute of International Law (IHLADI) and of the Peruvian Society of International Law.

Sandra NAMIHAS

A lawyer from the Pontificia Universidad Católica del Perú, she holds a Diploma in National Security and Defense from the Universidad Nacional Mayor de San Marcos (Lima, 2007) and one in Defense Planning and Resource Management from the Center for Hemispheric Defense Studies of the National Defense University of the United States of America (Washington, 2001).

Currently, she is the Coordinator and an Associate Member of the International Studies Institute (IDEI) of the PUCP. She is an Associate of the Hispanic-Luso-American Institute of International Law (IHLADI) and Associate Member of the Peruvian Society of International Law.

